

REPUBLIC OF KENYA



Enhancing Accountability

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REPORT

OF

THE AUDITOR-GENERAL

ON

**KWALE WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2020**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 95202, MOMBASA

23 FEB 2021

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**KWALE WATER AND SEWERAGE COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED
30 JUNE 2020**

Prepared in accordance with the Accrual Basis of Accounting Method under the International
Financial Reporting Standards (IFRS)

KWALE WATER & SEWERAGE COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
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COMPANY INFORMATION

Background information

Kwale water and Sewerage Company limited is a Company registered under the company act Cap 486 of the laws of Kenya. It is domiciled in Kenya.

Currently under the devolved system of government, the company is under the aegis of the County Government pursuant to the Public Finance Management Act (2012)

Principal Activities

The principal activity of Kwale Water and Sewerage Company is to provide quality and sufficient water and sewerage services at affordable rates to the residents of Kwale, Kinango and Msambweni sub-counties.

Company Vision

To be a leading water company that provides quality and sufficient water and sewerage services in a reliable and sustainable manner to the residents of Kwale, Kinango and Msambweni sub-counties.

Company Mission

To be the most efficient company in the provision of clean, safe, sufficient and affordable water and sewerage services to the residents of Kwale, Kinango and Msambweni sub-counties

Directors

The Directors who served Kwale water and sewerage Company during the year ending 30 June 2020 were as follows:

NAME	DESIGNATION	DATE APPOINTED/ EXIT
1. Francis Nzai Mjera	Chairman	Reappointed 1 st February 2018
2. Ali Chalala Joseph	Ag.Managing Director	Appointed 15 th May 2018
3. Hemed Mwabudzo	Member	Reappointed 1 st February 2018 Exited in January 2020
4. Bakari Sebe	Member	Reappointed 1 st February 2018 Exited in January 2020
5. Helen Njoroge	Member	Appointed 1 st February 2018
6. Japheth Mwero	Member	Appointed 1 st February 2018
7. Rehema Chidzuga	Member	Appointed 1 st February 2018
8. Joseph Gathua	Member	Appointed May 2018
9. Mwanatumu Kadau	Member	Appointed 1 st February 2018
10. Suleiman Yeya	Member	Appointed 1 st February 2018
11. Erick Parmet	Ag Managing Director	Appointed september 2019
12. Alex Onduko	Member	Appointed in January 2020
13. Musyoki Muthoka	Member	Appointed in January 2020

KWALE WATER & SEWERAGE COMPANY LIMITED

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COMPANY SECRETARY

Lewa and Associates
Off Sauti ya Kenya Road
Ganjoni (Near Jahazi Hotel)
P.O. Box 2937 – 80100
Mombasa

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Sida Camp
Kwale Area
P.o. Box 18 – 80403
KWALE

BANKERS

Kenya Commercial Bank
Ukunda Branch
P.O. Box 150-80400
Ukunda

Equity Bank
Ukunda Branch
P.O. Box 1476- 80400
Ukunda

INDEPENDENT AUDITORS

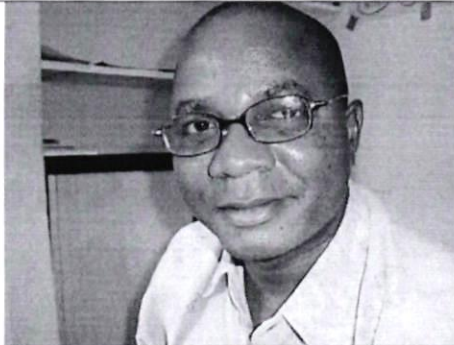

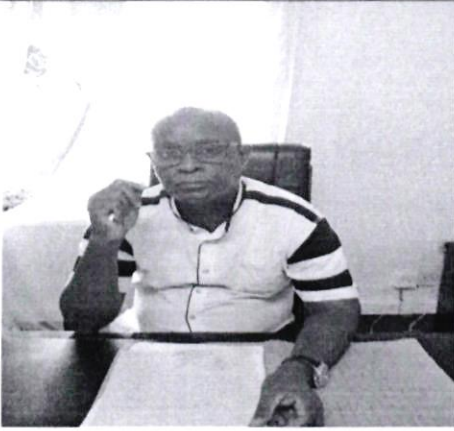
AUDITOR GENERAL
Office of the Auditor General
Anniversary Towers
P.O. Box 30084
NAIROBI.

LEGAL ADVISORS

Lewa and Associates
Off Sauti ya Kenya road
Ganjoni (Near Jahazi Hotel)
P.o. Box 2937 - 80100
Mombasa





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BOARD OF DIRECTORS


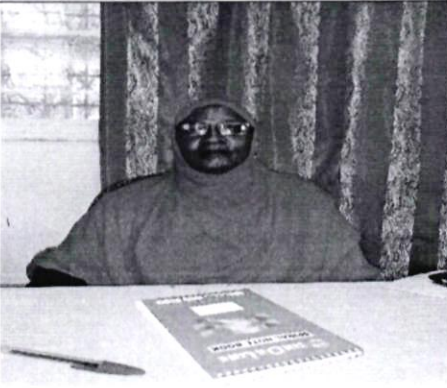
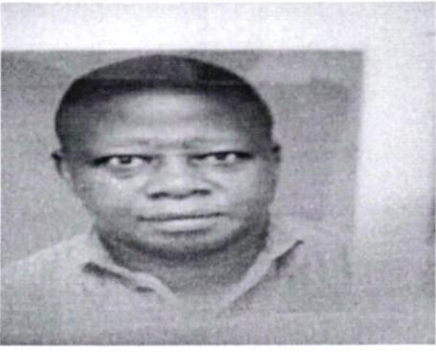
	NAME	PHOTO	DESCRIPTION
1	FRANCIS NZAI MJERA		Chairman of Board of Directors P.O Box 4 – 80403 KWALE Diploma- School Management at Kenyatta University on going Date of Birth: 15/2/1966
2	ERIC MELUBO PARMET		Ag Managing Director KWAWASCO P. O. Box 4 – 80403 Kwale Masters in project planning management. BA in Development studies and Business Administration Date of birth: 1976
3	ALI CHALALA JOSEPH		Managing Director. KWAWASCO P.O.Box 4 – 80403 Kwale B.Tech Analytical chemistry (T.U.M) Date of Birth: 1966 Exited in September 2019

KWALE WATER & SEWERAGE COMPANY LIMITED


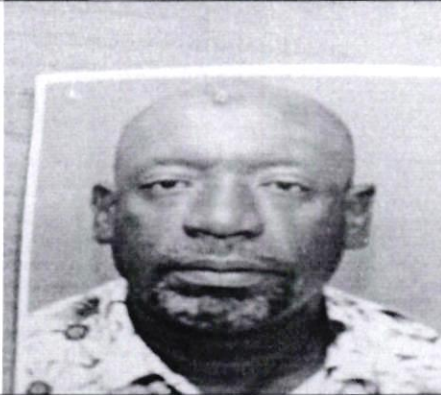

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4	HEMED MWABUDZO		<p>Board member P.O. Box 4 – 80403 MOMBASA Holds a degree in Social Science Exited in December 2019</p>
5	BAKARI SEBE		<p>Board member P.O. Box 4 – 80403 KWALE Currently a PhD student of Business Administration at JKUAT Exited in December 2019</p>
6	ALEX ONDUKO		<p>Chairperson of Audit Committee P. O. Box 4 – 80403 Kwale CPA (K) Holder Holds master of Business Administration (Finance).</p>
7	HELEN NJOROGE		<p>Board Member P.O. Box 4 – 80403 Kwale Diploma in ECDE Retired Teacher Date of Birth 30/09/1954</p>

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8	JAPHET MWERO		<p>Chairperson Technical Committee P.O. Box 538 Mariakani O level Retired in civil service as veterinary officer Date of Birth: 1946</p>
9	REHEMA CHIDZUGA		<p>Chairperson Human Resource Committee P.O. Box 31 Matuga Holds Bachelors of Education Date of Birth 18th April 1957</p>
10	JOSEPH GATHUA		<p>Board Member P.O. Box 32, Mukurueni O level Accountant. Date of Birth 28/08/ 1957</p>

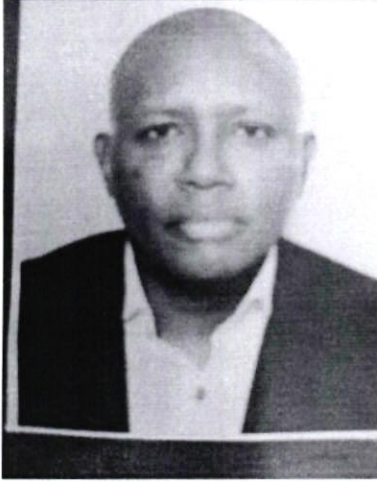


KWALE WATER & SEWERAGE COMPANY LIMITED
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11	MUNYAO MSYOKI MUTHUKA		<p>Board member P. O. Box 4 – 80403 Kwale Holds a master degree in Science and Geology Has extensive experience in managing project.</p>
12	SULEIMAN YEYA		<p>Board member P.O. Box 18 - 80403 KWALE O level Utalii College Nairobi Date of Birth 01/01/1966</p>
13	MWANATUMU KADAU		<p>Board member P.O. Box 115 LungaLunga O level Date of Birth 21/5/ 1972</p>


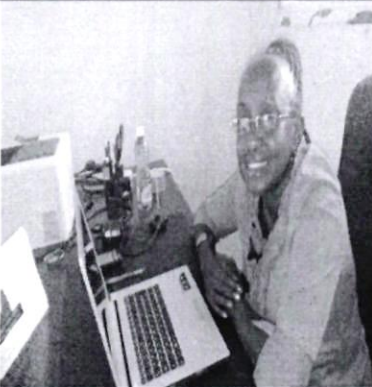


KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
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MANAGEMENT TEAM


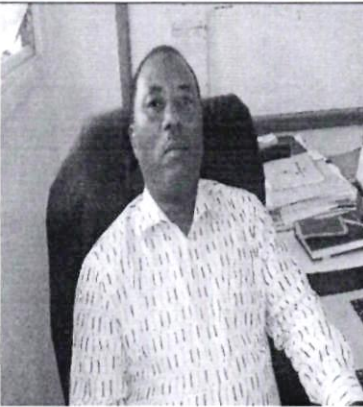
	NAME	PHOTO	DESCRIPTION
1	ERIC MELUBO PARMET		Ag Managing Director KWAWASCO P. O. Box 4 – 80403 Kwale Masters in project planning management. BA Development studies and business administration. Date of birth: 1976 Joined in September 2020
2	ALI CHALALA JOSEPH		Managing Director. KWAWASCO P.O.Box 4 – 80403 Kwale B.Tech Analytical chemistry Date of Birth: 1966 Exited in September 2019
3	ERICK NAKITARI		Head of Technical Master of Science in Water Engineering (MSc) Bachelor of Technology in Civil and Structural Engineering Member of Engineers Registration Board of Kenya

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4	WILLIAM JEFWA		<p>Finance Manager. Bachelor of Business Administration - Accounting CPA (K), Member of ICPAK</p>
5	SUSAN MLAMBA		<p>Human Resource Manager. Bachelor of Arts & Sociology HR. post graduate Master in Business Administration on going</p>
6	HUSSEIN MWAVADU		<p>Commercial Manager Degree in Information and Technology. Diploma in IMIS Master Degree on going</p>
7	STEVEN SAFARI		<p>Internal Auditor. Bachelor of Commerce (Accounting Option) CPA (K), Member of ICPAK Registered member of IIA</p>

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8	SWALEH KIDZUGA		Technical Manager. Diploma In water Engineering Higher Diploma in Building and Civil Works Member of Engineering Registration Board of Kenya
9	HAMISI NZIMO		Procurement Officer Master degree project planning & Management (UON) Bachelor of Commerce procurement & S.C (UON) Registered member KISM

KWALE WATER & SEWERAGE COMPANY LIMITED
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CHAIRMAN'S STATEMENT

Technical Activities

Key Projects and Investment decisions Kwawasco is planning / implementing

Many proposals have been floated by Kwawasco to various stake holders who would be supporters all and at boosting water production and supply levels that would ensure increased coverage in area of supply under the Company's jurisdiction currently standing at slightly above 40% of the County population. Key among these development partners are the World Bank, County Government of Kwale and Water Sector Trust Fund.

The response has been positive particularly from the World Bank where approval plans amounting to Ksh. 2.5 Billion both on water and sanitation shall be undertaken. The main tasks to be executed under this component include Water supply Improvement plans for Ukunda town and its environs, Sanitation Improvement in both Ukunda and Kwale town. Non- revenue water reduction plans cutting across the entire Kwawasco Institution strengthening for Kwawasco. So far through the World Bank Support, the following have been delivered:-

- Procurement and delivery of Consumer water metres, all critical tools and fittings now available in our store that would address both the high non- revenue water and execute emergency repair within shortest time possible.
- Procurement and delivery of 10 Motorcycles for use within our field stations by the Company meter readers and pipe fitters.
- Construction of a modern meter testing bench with the structure complete awaiting stocking with the accompanying merchandise.
- Procurement of 2 water Boozers and 2 exhausters of capacity 10000 Litres each.

The main works under WSDP being the improvement of water supply and sanitation for Ukunda and Kwale towns, plans are at an advanced stage and schedule to start in the next financial year.

The water service trust fund (WSTF) approved plans for sanitation improvement around Institutions namely; Madibwani, Shimoni, Egu, Shimbahills, Mgandini and Magombani Primary schools each with varied magnitude of support. To date construction of the planned construction of sanitation block is complete at Shimoni Primary school, Shimbahills Secondary school and Egu primary school, while the same is ongoing at Magombani, Madibwani and Mgandini primary school.

KWALE WATER & SEWERAGE COMPANY LIMITED

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WSTF also did support are programme tagged UBSUP (Up calling Basic Sanitation in Urban Poor) basically aimed at Improving the sanitation standards within the environs of urban centres. Ukunda urban town was selected for this intervention where 200 toilets doors are to be constructed at owner cost with the programme eventually offering a subsidy of Ksh 20,000 for each door constructed. Particular toilet model is being promoted that would address possible ground water resource pollution as is the case with the normal non-aligned conventional pit Latrines. So far 60 toilet doors have been constructed and beneficiaries awarded subsidy amount Ksh 1.2 Million.

UBSUP programme will also come up with a decentralised treatment facility (DTF) to be constructed within Mabokoni areas on a County land next to TUM University. Construction work is ongoing and to be completed by March 2021. Upon completion it would complement the other component of toilet construction as the emptying and treatment facility with a capacity of accommodating 5 exhausters of capacity 10,000 litres in a day.

Wstf has also supported the Company to respond to Covid – 19 pandemic by advancing Ksh 4 Million project targeted at providing and opening up for hand washing points within the known hot sports areas within Kwale County, 27 Hot sports centres were mapped and are set to benefit with a 3000litre capacity plastic tank raised on masonry platform with hand washing detergents Issued at the initial stages. This activity ongoing and to be completed within the next one week.

August this year the company entered into an agreement with Fujita, the Company Contracted to undertake Dongo Kundu bypass road under the MPARD programme to supply water to its critical installations along that road section where massive concrete work will be executed. Ksh 14 Million pipeline extension was undertaken and planned for handover this coming week. Fujita is considered a potential customer that Kwawasco will bring on board thus boosting revenue accrued form that area. Several projects have been and are being implemented by the County Government in the entire Kwale region resulting in more areas being covered with clean water particularly in the hinterland thus Improved hygiene and healthy people hence productive populace. Kwawasco has benefitted greatly through a large consignment of consumer meter received from the County. This will see well over 1000 non- working meters being replaced. The ultimate result is drastic reduction in non- revenue water percentage currently standing at over 50%.

Generally, all these developments will eventually have appositve impact to Kwawasco making itself sustainable.

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Commercial Activities

- Customers

Customer base increased to 17,384 from 16,681. The subtle increase of service line at Mazeras Fulgan, Kwale Golini Villages, Samburu Fuleye Village and revival of Boreholes E, and D in Tiwi also made a significance increase in Tiwi/Kombani.

-Billings and Collections

Billing to customers was greatly affected by COVID -19 especially from March 2020 when the first case was reported. Our Major Customers are along the beach line which was adversely affected by the pandemic to an- extend of some customers completely closing their lines.

Since much of the system is rationing the company had to resolve into pushing much water to the locals to help the company survive.

Effects of COVID -19 revenues

This Pandemic affected the company's revenues. In the month of March 2020 through to May 2020 saw the company's revenue go down. This was after all major Hotels, Industries were shut down.

The company had to rely on the small customers or domestic to sensitize them pay their old outstanding debts

.-Tariff

KWAWASCO is in the process of renewing its Tariff for the next financial year since the current was ending June 2020.

Strategic plan 2018 -2022

KWAWASCO has a new strategic plan which is still in draft copy. Measures are in place to ensure it is in line with the county government development plan since water services is a devolved function.

Chairman of the Board
Francis Nzai Mjera



.....
23/2/2021

KWALE WATER & SEWERAGE COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

REPORT OF THE CHIEF EXECUTIVE OFFICER

Kwale Water and Sewerage Company Limited (KWAASCO) was incorporated on the 26th September 2005. The company's mandate is to efficiently and effectively provide quality, reliable and adequate water services to the residents of Kwale County in accordance with a versatile service provision agreement (SPA) and WASREB minimum service levels.

The Company has got 10 board members representing the County Government of Kwale, women representative, business community, hotel industry, professional's representative and farming community.

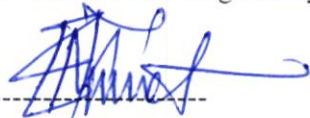
The population within KWAASCO's service area is about 700,000 people based on the last census by the Kenya National Bureau of Statistics while the company's estimated population served is about 52%. Kwale Water and Sewerage Company receives bulky water from Coast Water Services board from its various sources namely Marere Springs, Mzima Springs and the Tiwi Boreholes.

KWAASCO also operates water schemes in Msambweni, Lungalunga and Vanga all of which are served by boreholes from Msambweni, Mwalewa and Tsuni respectively.

KWAASCO is headed by a Managing Director and has four (4) departments namely Technical department, Commercial and Business Development, Finance and Administration, Human Resource. The need to take services closer to the people and improve on the company performance and service delivery, the company has the following area offices across the county which are manned by able and hardworking zonal Managers. These are;

Station	Zones	Zonal Office	Zonal Manager	Tel. Contact
1	Tiwi/Ukunda	Ukunda zones	Zubeda Shauri	0711489281
2	Msambweni/Mkanda	Msambweni	Nchama	0720161655
3	Kwale/Kinango	Kwale	Keens Sternly	0720863087
4	Mzima	Mariakani	Thomas Karani	0720331757

The Company is in the process of reviewing the current tariff so that it can apply for a new tariff from Waster service Regulatory Board (WASREB).



Eric Parmet

Ag Managing Director

KWALE WATER & SEWERAGE COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
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CORPORATE GOVERNANCE STATEMENT

Kwale water and sewerage Company Board of directors were appointed Pursuant to legal notice No: 165 of 2013, by the Kwale County Executive Member for Water and Infrastructure as follows:

1. Suleiman Saidi Yeya
2. Japhet Mwero
3. Helen Njeri Njoroge
4. Mwanatumu Kadau Maalim
5. Mujera Francis Nzai
6. Rehema Sefu Chidzuga
7. Suleiman Athuman Chembeya

However Suleiman Athuman Chembeya left three months after the appointment and Joseph Gathua was appointed to replace him in may 2018. Director Hemed Mwabudzo County Executive Member for water and infrastructure, Director Bakari Sebe Executive Member for Finance and planning exited and replaced by the chief offices of the respective ministries in January 2020.

The board of director's structure is headed by the Chairman with three committees, namely Audit Committee chaired by Alex Onduko, Finance and Human Resource Committee chaired by Director Rehema Sefu Chidzuga and Technical Committee chaired Director Japheth Mwero. These committees articulate the board's views and take their right place in governance of the company.

The acting capacity term for the acting managing director Mr. Ali Joseph Chalala expired on 19th May 2019. The board held a full board meeting where they agreed to hold the acting managing director for a while before they could settle on who is to take over from him. On August the board resolved to appoint Mr. Eric Parmet to take over from Mr. Ali Joseph Chalala as from 1st September 2019.

KWALE WATER & SEWERAGE COMPANY LIMITED
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MANAGEMENT DISCUSSION AND ANALYSIS

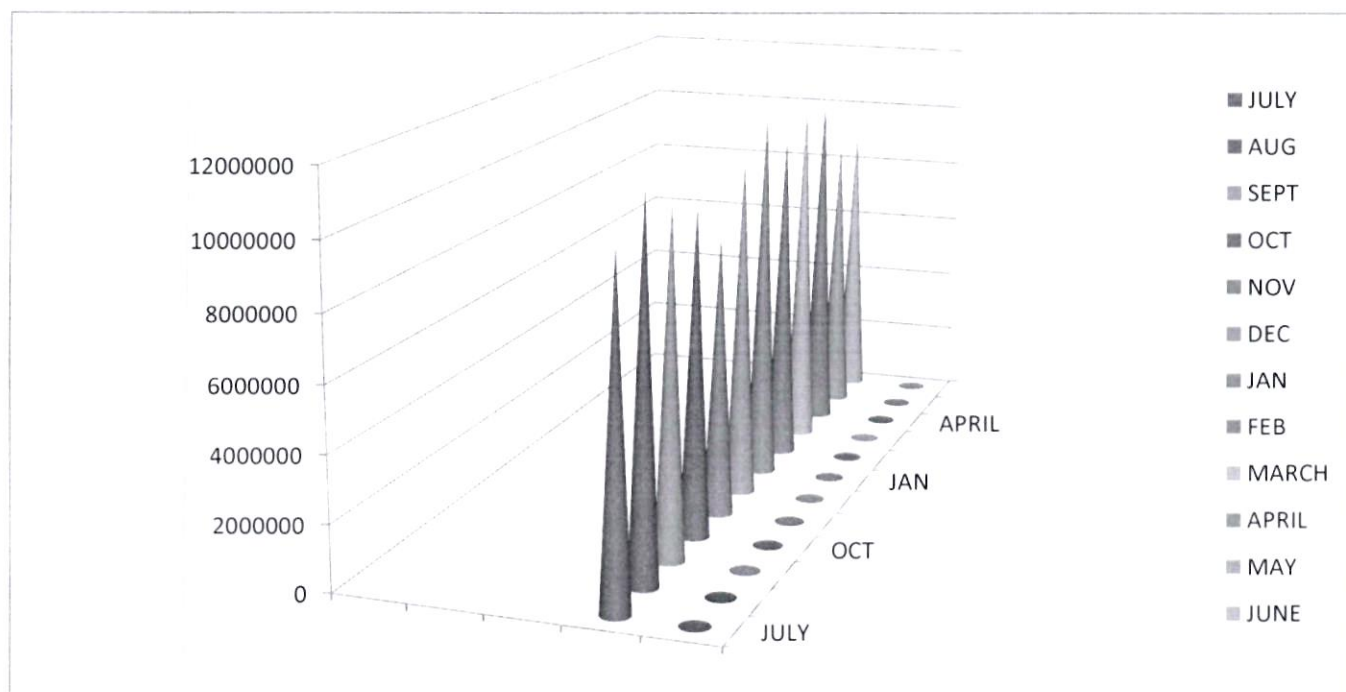
Billing to customers was greatly affected by COVID -19 especially from March 2020 when the first case was reported. Our Major Customers are along the beach line which was adversely affected by the pandemic to an- extend of some customers completely closing their lines.

The company recorded a deficit of ksh 27,397,471 for the year ended 30 June 2020 in its operation; the total current liabilities of ksh 310,803,187 exceeded the total current assets of ksh 235,781,203 resulting to a negative working capital of ksh 75,021,984. This was an increase of negative working capital of ksh 20,329,520 from the previous negative working capital of ksh 54,692,464 for the year ended 30 June 2019.

It is worth noting that the company withholds statutory deduction from its employee and remits it to the relevant authorities, as at 30 June 2020 the outstanding statutory deduction in respect to Paye was ksh 38,841,798. Out of the outstanding amount, ksh 32,420,450 was fines, penalties and the principal amount assessed by KRA. As at 15th February 2015, the Company had not paid net salaries and its related payroll liabilities for the month of October, November, December, January and February for the financial year ending June 2020 This was attributed by the fluctuations of revenue as explained in the bar graph below.

KWALE WATER & SEWERAGE COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020



This and other information is well explained from page 2 – 5 of the financial statement.

MANAGEMENT MEASURES

To ensure efficiency on service provision to clients, operations and maintenance is key priority for the company, hence huge investments on this front.

To address the persistent issue of NRW (Non-Revenue Water), the company has installed master meters at each off take from Coast Water Works Development Agency (CWWDA), Bulk Unit for the water the Company receives for distribution. Further the company has procured over NO 4000 meters to replace the old customer meters to mitigate the commercial losses/ water losses.

To expand its capacity and operation, the company has received funding (loan & grant) from the World Bank to implement water and sanitation projects in Ukunda. The project is expected to be completed by October 2022. In addition, the Company has received funding from WSTF for construction of latrines in schools, a project for up scaling basic sanitation for the urban poor and construction of a Decentralized Treatment Facility (DTF-50) in Ukunda town.

KWALE WATER & SEWERAGE COMPANY LIMITED

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The Company plans to submit various project proposals to different donor agencies for funding as an effort to expand its operations/ profile. The Company continues to work closely with the County Government of Kwale, to take over / operate pipelines and water systems developed by the County. Despite these efforts, the advent of Covid-19 pandemic and the subsequent lockdown of the County had a major dent on the Company's operations and financial performance. The closure of beach hotels and learning institutions, who are the major customers, dwelt a big blow on the billed volumes and collection efficiency.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As part of Corporate Social Responsibility, the Company made donations in form of buckets and soap in all the 13 stations as part of mitigating Covid-19 pandemic. Further, the company undertook water trucking for free mainly to bus parks and markets in Kwale, Kombani and Ukunda for hand washing. The Company also was a member of the County Covid-19 task force, where it donated the company truck for food distribution to vulnerable households affected by the pandemic.

KWALE WATER & SEWERAGE COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
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REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 30 June 2020.

PRINCIPAL ACTIVITIES

The principal activity of the company is sale of water to the residents of Kwale County, Kenya.

FINANCIAL RESULTS

Deficit for the year **Kshs. (27,397,471)**

DIRECTORS

The members of the Board of Directors who served during the year are shown on page (iv) and (vi) in accordance with the Regulation of Public Sector Accounting Standards Board (PSASB)

DIVIDENDS PARAGRAPH

The Board of Directors could not declare any dividends to the shareholders as the company results for the financial year was a deficit of kshs (27,397,471).

AUDITORS

The Auditor General is responsible for the statutory audit of KWAWASCO in accordance with section 155 of the Public Finance Management (PFM) Act, 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

BY ORDER OF THE BOARD

Secretary of the Board

Lewa and Associates



23rd February, 2021

KWALE WATER & SEWERAGE COMPANY LIMITED
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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the Company Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the Directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.


The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that Kwale Water and Sewerage Company limited will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Kwale Water and Sewerage Company Limited financial statements were approved by the Board on 23/2/2021 2021 and signed on its behalf by:



Director



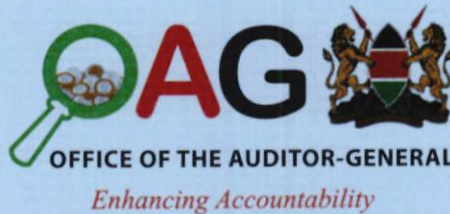
Director



Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KWALE WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kwale Water and Sewerage Company Limited set out on pages 1 to 46, which comprise of the statement of financial position as at 30 June, 2020, statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kwale Water and Sewerage Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Companies Act, 2015, the Water Act, 2012, and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Non-disclosure of Material Uncertainty in Relation to Going Concern

The Company recorded a loss of Kshs.27,397,471 (2019 - Kshs.6,241,602), which brought its accumulated loss to Kshs.123,780,892 (2019 - Kshs.96,383,421). Further, the total current liabilities totalling to Kshs.310,803,187 exceeded total current assets totalling to Kshs.235,859,855, resulting in a negative working capital totalling to Kshs.74,943,332. This is an indication that the Company may not be able to settle its obligation as and when they fall due.

The existence of this material uncertainty may cast a significant doubt on the Company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive

financial support from the County Government of Kwale, its creditors and bankers. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

2. Revenue on Estimated Billing

As disclosed in Note 6 to the financial statements, the statement of profit and loss and other comprehensive income reflects water sales totalling to Kshs.121,865,224. However, records indicated that the Management billed customers an amount of Kshs.17,307,604 after actual meter reading and Kshs.4,396,520 on estimated consumption.

Although the Management indicated that estimates were based on three (3) months actual reading averages, there was no evidence that the policy was being followed by indicating the three months previous reading average on the bills.

Consequently, the accuracy, completeness and validity of water sales totalling to Kshs.121,865,224 reflected in the statement of profit and loss and other comprehensive income for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Current Liabilities

As disclosed in Note 21 to the financial statements, the statement of financial position reflects current liabilities balance totalling to Kshs.310,803,187. As reported in the previous year, the balance includes trade payables balance totalling to Kshs.230,284,604 which includes an unsupported balance owed to Water Services Regulatory Board (WASREB) amount of Kshs.5,982,991 and Coast Water Services Board amounting to Kshs.180,463,021.

Consequently, the accuracy, completeness and validity of trade payables balance of Kshs.230,284,604 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kwale Water and Sewerage Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.181,702,370 and Kshs.148,717,074 respectively, resulting to an underfunding amounting to Kshs.32,985,296 or 18% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.180,162,360 and Kshs.176,114,545 respectively, resulting to an underperformance amounting to Kshs.4,047,815 or 2% of the budget.

The underfunding affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

Other Information

The Directors are responsible for the other information. The other information comprises the report of Directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing

else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Long Outstanding Payables

Trade and other payables includes an amount of Kshs.69,085,930 in respect of other payables, out of which an amount of Kshs.46,901,828 relates to unremitted statutory deductions. The Management indicated that the amount relating to PAYE was in respect of penalties for non-remittance of PAYE before 2019 and provided schedule of payment agreement between the Water Company and Kenya Revenue Authority. However, no evidence was provided to indicate that the Management had entered into negotiation and a similar arrangement with other creditors.

Further, the balance includes audit fees amounting to Kshs.2,820,000 outstanding for more than one year, owed to the Office of the Auditor-General contrary to Section 41(1) of the Public Audit Act, 2015 which state that, "the funds of the Office of the Auditor-General shall consist of audit fees charged at the rates prescribed by the Auditor-General."

The Management did not provide a satisfactory explanation of failure to settle the long overdue debts.

In the circumstances, I am unable to confirm whether Management effectively managed public resources.

2. Unaccounted for Water

The statement of profit and loss and other comprehensive income for the year ended 30 June, 2020 reflects an amount of Kshs.121,865,224 in respect of water sales. Review of records indicated that the Company's total quantity of water supplied and produced was 3,981,897 cubic meters (m³), out of which only 1,355,469 (34%) cubic meters were billed to customers. The balance of 2,626,428 (66%) cubic meters was unaccounted for water (UFW). This is higher than 25% loss allowable by the Water Service Regulatory Board (WASREB) guidelines by 1,552,940 (39%) cubic meters. The unaccounted for water may have resulted to loss totalling to Kshs.100,941,100 based on an estimated distribution rate of Kshs.65 per cubic meter after allowing for the allowable 25% loss.

Consequently, the Management is in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's financial statements are in agreement with those records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 February, 2022

KWALE WATER & SEWERAGE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
REVENUES		Kshs	Kshs
Water Sales	6	121,865,224	120,127,655
Grants from County Government	7 (a)	14,576,000	15,637,738
Differed Income	7 (b)	-	11,519,823
Other Income	8	12,275,850	11,455,825
TOTAL REVENUES		<u>148,717,074</u>	<u>158,741,041</u>
OPERATING EXPENSES			
Administration Cost & Employment cost	9 (a)	91,652,075	80,323,365
Direct Cost	10	77,189,555	78,649,224
Depreciation of property, plant and equipment	14(a)	6,917,716	4,970,731
Amortization of Intangible Assets	14(b)	355,199	1,039,323
TOTAL OPERATING EXPENSES		<u>176,114,545</u>	<u>164,982,643</u>
OPERATING PROFIT/(LOSS)		(27,397,471)	(6,241,602)
PROFIT/ (LOSS) BEFORE TAX		(27,397,471)	(6,241,602)
PROFIT/ (LOSS) AFTER TAX		(27,397,471)	(6,241,602)

KWALE WATER & SEWERAGE COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020


STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020


	Note	2019/2020	2018/2019
		Kshs	Kshs
ASSETS			
Non- Current Assets			
Property, plant and equipment	14 (a)	53,223,406	20,368,626
Intangible Asset	14 (b)	-	355,199
Staff receivables due after one year	15(c)	-	342,541
Total Non-Current assets		<u>53,223,406</u>	<u>21,066,366</u>
Current Assets			
Trade and other receivables	15(a)	218,878,094	199,761,248
Bank and cash balances	16	16,981,761	15,566,023
Total Current Assets		<u>235,859,855</u>	<u>215,327,271</u>
Total Assets		<u>289,083,261</u>	<u>236,393,637</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	17(a)	2,000,000	2,000,000
Accumulated Reserve (Deficit)	17(c)	(123,780,892)	(96,383,421)
Capital reserve	17(b)	36,719,864	36,719,864
Differed Project Accounts		(11,519,825)	-
Total Capital and Reserve		<u>(96,580,853)</u>	<u>(57,663,557)</u>
Non-Current Liabilities			
Service gratuity	23(a)	13,334,884	9,991,358
Customer deposit	23(b)	16,510,601	14,046,101
World Bank(WSDP) Loan	23(c)	45,015,440	
Total Non-Current Liabilities		<u>74,860,925</u>	<u>24,037,459</u>
Current Liabilities			
Trade & Other Payables	21	310,803,187	270,019,735
TOTAL CURRENT LIABILITIES		<u>310,803,187</u>	<u>270,019,735</u>
TOTAL EQUITY AND LIABILITIES		<u>289,083,261</u>	<u>236,393,637</u>

Note: Inventories as at 30th June 2020 valued at a cost of Ksh.904, 042 were not reported in the balance sheet since it would have led to double counting as inventories had already been expensed in their respective expense accounts. WSDP project inventories at this date were ksh. 6,174,959

The financial statements were approved by the Board on 23/2/2021 2021 and signed on its behalf by:


 Ag. Managing Director
 Name: Eric Parmet


 Senior Finance Officer
 Name: William Jefwa
 ICPAK M/NO: 12660


 Chairman of the Board
 Name: Francis Mjera Nzai

KWALE WATER AND SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Ordinary share capital	Capital reserve	Accumulated Revenue reserve/ Deficit	Total
As At July 1, 2018	2,000,000	36,719,864	(90,141,819)	(51,421,955)
Surplus for the year	-	-	(6,241,602)	(6,241,602)
As At June 30, 2019	2,000,000	36,719,864	(96,383,421)	(57,663,557)
As At July 1, 2019	2,000,000	36,719,864	(96,383,421)	(57,663,557)
Defecit for the year	-	-	(27,397,471)	(27,397,471)
As At June 30, 2020	2,000,000	36,719,863	(123,780,892)	(85,061,028)

KWALE WATER AND SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/ (used in) operating activities	24 (a)	37,844,708	11,619,902
Net cash generated from/ (used in) operating		37,844,708	11,619,902
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and Machinery	14 (a)	(30,165,006)	(1,311,890)
Purchase of motor cycles	14 (a)	(5,067,400)	-
Purchase of furniture's	14 (a)	(2,042,440)	(12,300)
Purchase of computers	14 (a)	(2,497,650)	(391,870)
Net cash generated from/(used in) investing activities		(39,772,496)	(1,716,060)
CASH FLOWS FROM FINANCING ACTIVITIES			
Gratuity payable	23(a)	3,343,526	2,307,195
Net cash generated from/(used in) financing activities		3,343,526	2,307,195
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		1,415,738	12,211,037
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	16	15,566,023	3,354,986
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
	16	16,981,761	15,566,023

KWALE WATER AND SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2020**

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	
	2019-2020	Kshs	2019-2020	Kshs	2019-2020	Kshs	2019-2020	Kshs	2018-2019	Kshs
Revenue										
Sale of services	141,702,370		(0)		141,702,370		121,865,224		(19,837,146)	
Transfers from the Government (Kwale County)	28,000,000		(0)		28,000,000		14,576,000		(13,424,000)	
Other income	12,000,000		-		12,000,000		12,275,850		275,850	
Total income	181,702,370		(0)		181,702,370		148,717,074		(32,985,296)	
Expenses										
Compensation of employees	50,570,776		-		50,570,776		50,425,112		145,664	
Use of goods and services (Direct cost)	78,508,022		(0)		78,508,022		77,189,555		1,318,467	
Finance cost	-		(0)		-		-		-	
Rent Expenses	300,000		(0)		300,000		292,500		7,500	
Administrative costs	50,783,562		-		50,783,562		48,207,378		2,576,184	
Total expenditure	180,162,360		(0)		180,162,360		176,114,545		4,047,815	
Surplus for the period/ Deficit	1,540,010		-		1,540,010		(27,397,471)		(28,937,481)	

The company did not realise the anticipated increase in revenue due to the epidemic which resulted to most of the hotels and schools to be closed and they are the entity major consumers.

KWALE WATER AND SEWERAGE COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kwale Water and Sewerage Company Limited is established by and derives its authority and accountability from Companies Act. The entity is wholly owned by the County Government of Kwale and is domiciled in Kenya. The company principal activity is to provide quality and sufficient water and sewerage services in a reliable and sustainable manner to the residents of Kwale, Kinango and Msambweni districts.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the notes

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Kwale water and sewerage company limited.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or after 1 January 2018	Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39</u> <i>Financial Instruments: Recognition and Measurement</i> . The standard contains requirements in the following areas: <ul style="list-style-type: none">• Classification and measurement.

KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Amendment/Interpretation to a standard	Effective date	Impact
		<p>Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</p> <ul style="list-style-type: none"> • Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39
<p>IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i></p>	<p>Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018</p>	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognize revenue when (or as) the entity satisfies a performance obligation.

KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Amendment/Interpretation to a standard	Effective date	Impact
		<p>Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p>
<p>IFRIC 22: Foreign Currency Transactions and Advance Consideration <i>(Issued 8 December 2016)</i></p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2018</p>	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • The prepayment asset or deferred income liability is non-monetary. <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
<p><i>Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)</i> <i>(Issued 19 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 12</u> <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> • Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future

KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Amendment/Interpretation to a standard	Effective date	Impact
		<p>taxable profits.</p> <ul style="list-style-type: none"> Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
<i>Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017	Amends <u>IAS 7 Statement of Cash Flows</u> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 15 Revenue from Contracts with Customers</u> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 2 Share-based Payment</u> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.
<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</i>	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on	Amends <u>IFRS 4 Insurance Contracts</u> provide two options for entities that issue insurance contracts within the scope of IFRS 4: <ul style="list-style-type: none"> an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;

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Amendment/Interpretation to a standard	Effective date	Impact
	or after 1 January 2018 and only available for three years after that date	<ul style="list-style-type: none"> An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p>
<i>Transfers of Investment Property (Amendments to IAS 40)</i> <i>(Issued 8 December 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	<p>The amendments to <i>IAS 40 Investment Property</i>:</p> <ul style="list-style-type: none"> Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> <i>(Issued 8 December 2016)</i>	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>

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Amendment/Interpretation to a standard	Effective date	Impact
		<ul style="list-style-type: none"> • IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases (Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.

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<p><i>IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)</i></p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2019</p>	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
<p><i>Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p>
<p><i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Clarifies that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p>
<p><i>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasures previously held interests in that business. • IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events

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		<p>that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</p> <ul style="list-style-type: none"> • IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalization rate on general borrowings.
<p><i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> are:</p> <ul style="list-style-type: none"> • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
<p><i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2020</p>	<p>Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i>. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i>.</p> <p>Pages 8 to 13 notes to the financial statements is missing as the platform does not allow</p>

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The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the *entity* and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the *entity's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *entity's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective
- vi) lease agreements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

vii) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years

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Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and

which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease

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payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

m) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

n) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

n) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized

to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences

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Will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

n) Taxation

Deferred tax

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held by the bank at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised staffs at the end of the financial year.

p) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges,

including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

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q) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

r) Retirement benefit obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

s) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

t) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

u) Budget information

The original budget for FY 2018-2019 was approved and signed by the BOD on 16th March 2018. There has been no additional appropriations made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the company did not record additional appropriations of on the 2018-2019 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial

performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and

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actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

u) Budget information

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 6 of these financial statements.

v) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

w) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION
UNCERTAINTY**

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could

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result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in the notes

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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6 WATER SALES

	2019/2020	2018/2019
	Kshs	Kshs
Minor Water Sales	107,005,975	106,244,110
Major Water Sale	14,859,249	13,883,545
Total	121,865,224	120,127,655

There was an increase in revenue from kshs 120,127,655 to kshs 121,865,224

7 (a) GRANTS FROM COUNTY GOVERNMENT.

	2019/2020	2018/2019
	Kshs	Kshs
Reccurent grant received from County Government in Nov 2019	5,000,000	8,600,000
Reccurent grant received from County Government in Mar 2020	3,800,000	7,037,738
Reccurent grant received from County Government in May 2020	5,776,000	
TOTAL	14,576,000	15,637,738

Note: KWAWASCO received grant from County Government of Kwale of ksh 14,576,000 which was paid directly to Kenya Power and Lighting Company Limited to settle bulk electricity bills.

(b) DIFFERED INCOME: GRANTS FROM COUNTY GOVERNMENT & WSTF RECEIVED IN FY 2019/20

	2019/2020	2018/2019
	Kshs	Kshs
Capital grants realised from County Government and (WSTF)		
County water bill	-	2,320,638.00
WSTF Vanga Water Project (10%)	-	3,199,316.00
WSTF Shimoni Water Project (10%)	-	5,965,899.00
KRA L/Lunga Project	-	33,970.00
TOTAL	-	11,519,823.00

Ksh. 9,165,215 being 10% of Vanga and Shimoni water projects that never took off was recalled by County government. County water bill, monies given by WSTF to County government of kwale to draft water bill was full utilised

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8 OTHER INCOME

	2019/2020	2018/2019
	Kshs	Kshs
Meter Rent	9,732,050	10,075,250
Connection	2,543,800	1,380,575
Total	12,275,850	11,455,825

Water connection increased by Ksh 1,163,225 and there was a drop in meter rent by Ksh 343,200.

9 (a) ADMINISTRATION COSTS

	2019/2020	2018/2019
	Kshs	Kshs
Staff costs (note 9b)	50,425,112	51,821,310
Directors' emoluments	1,500,000	2,247,500
Electricity and water	22,690	133,534
Communication services and supplies	1,549,786	1,137,552
Transportation, travelling and subsistence	8,443,078	5,471,534
Advertising, printing, stationery and photocopying	831,713	921,349
Rent expenses	292,500	270,000
Staff training expenses	362,760	737,650
Hospitality supplies and services	1,648,148	1,634,053
Insurance costs	319,863	202,889
Bank charges and commission	401,761	398,018
Subscriptions	237,400	45,400
Auditors' remuneration	228,000	232,000
Office and general supplies and services	299,219	51,135
Corporate Social Responsibility (COVID-19)	50,000	-
License, Fines and Penalties	-	499,712
Legal fees	909,201	906,890
Repairs and maintenance	2,226,141	2,284,221
Provision for bad and doubtful debts	6,415,052	6,926,300
Other operating expenses	7,989,050	4,402,318
Bad debts written off	342,541	-
Other operating expenses (WSDP)	7,158,060	-
Total	91,652,075	80,323,365

Further explanation to these expenditures have been explained in their respective schedules.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 (b) STAFF COSTS

	2019/2020	2018/2019
Salaries and allowances of permanent employees	45,673,302	47,199,742
Wages of temporary employees	-	45,526
Compulsory national social security schemes	272,800	284,200
Other pension contributions	706,049	742,181
Leave pay and gratuity provisions	3,772,961	3,549,661
Total	50,425,112	51,821,310
The average number of employees at the end of the year was:		
Permanent employees – Management	4	2,625,455
Permanent employees – Unionisable	62	20,327,077
Temporary and contract employees	49	27,472,580
Total	50,425,112	51,821,310

There was a drop in salaries and allowances of permanent staff employees after the removal of CBA salaries to all carder of staff.

10 DIRECT COST

	2019/2020	2018/2019
	Kshs	Kshs
CWWDA/WASREB/WARMA	5,507,085	12,461,439
Cost of bulk electricity	34,464,450	34,774,485
Cost of bulk Water	37,218,020	31,413,300
	77,189,555	78,649,224

9% administration fee of water sale for CWWDA was removed, as per the gazette notice issued, kwawasco is recognising 4% of water sale to WASREB.

11 (a) OPERATING PROFIT/ (LOSS)

	2019/2020	2018/2019
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 9a)	50,425,112	51,821,310
Depreciation of property, plant and equipment	6,917,716	4,970,731
Amortisation of intangible assets	355,199	1,039,323
Provision for bad and doubtful debts	6,757,593	5,190,560
Directors' emoluments - fees	1,500,000	2,212,000
- other	-	35,500
Auditors' remuneration - current year fees	228,000	232,000
Total	(66,183,620)	(67,237,164)

KWALE WATER & SEWERAGE COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 INCOME TAX EXPENSE/(CREDIT)

**(b) Reconciliation of tax expense/ (credit) to the
 Expected tax based on accounting profit**

	2019/2020	2018/2019
	Kshs	Kshs
Profit before taxation/ Loss	(27,397,471)	(6,241,602)
Tax at the applicable tax rate of 30%	-	-
Total	(27,397,471)	(6,241,602)

The company realised a deficit in its trading

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax of Kshs.0 (2016: Kshs.0) by the average number of ordinary shares in issue during the year of 0 (2016: 0). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

13 DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2018, a final dividend in respect of the year ended June 30, 2018 of Kshs.0 (2017: Kshs.0) for every ordinary share of par value of Kshs.0 is to be proposed. An interim dividend of Kshs.0 (2017: Kshs.0) for every ordinary share of par value of Kshs.0 was declared and paid during the year. This will bring the total dividend for the year to Kshs.0 (2016: Kshs.0).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 (a) PROPERTY, PLANT AND EQUIPMENT

2020	Plant and machinery	Motor cycles	Motor vehicle	Computers & related equipment	Office equipment, furniture & fittings	Total
COST OR VALUATION	12.5%	12.5%	25%	30%	12.5%	
At July 1, 2019	31,576,341	2,149,136	4,950,000	3,088,503	2,996,288	44,760,268
Additions	30,165,006	5,067,400	-	2,497,650	2,042,440	39,772,496
Transfers	-	-	-	-	-	-
Disposals	(0)	(0)		(0)	(0)	(0)
At June 30, 2020	61,741,347	7,216,536	4,950,000	5,586,153	5,038,728	84,532,764
DEPRECIATION						
At July 1, 2019	15,344,347	1,315,387	2,475,000	2,696,633	2,560,275	24,391,642
Charge for the year	4,734,057	514,498	1,237,500	310,810	120,851	6,917,716
Eliminated on disposal	(0)	(0)	(0)	(0)	(0)	(0)
At June 30, 2020	20,078,404	1,829,885	3,712,500	3,007,443	2,681,126	31,309,358
NET BOOK VALUE						
At June 30, 2020	41,662,943	5,386,651	1,237,500	2,578,710	2,357,602	53,223,406

Kwawasco benefitted greatly through a large consignment of 1,000 pieces of consumer meter received from the County, but could not capitalise these into its books as the ownership documents are held by County water department.

KWALE WATER AND SEWERAGE COMPANY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 (a) PROPERTY, PLANT AND EQUIPMENT (Continued)

2019	Plant and machinery	Motor vehicles,	Computers & related equipment	Office equipment, furniture & fittings	Motor cycle	Total
COST OR VALUATION	12.5%	25%	30%	12.5%	12.5%	
At July 1, 2018	30,264,451	4,950,000	2,696,633	2,983,988	2,149,136	43,044,208
Additions	1,311,890	-	391,870	12,300	-	1,716,060
Transfers	-	-	-	-	(0)	-
Disposals	(0)	(0)	(0)	(0)	(0)	(0)
At June 30, 2019	31,576,341	4,950,000	3,088,503	2,996,288	2,149,136	44,760,268
DEPRECIATION						
At July 1, 2018	11,576,920	2,475,000	1,837,164	2,480,582	1,051,245	19,420,911
Charge for the year	3,767,427	-	859,469	79,693	223,591	4,970,731
Eliminated on disposal	(0)	(0)	(0)	(0)	(0)	(0)
At June 30, 2019	15,344,347	2,475,000	2,696,633	2,560,275	1,315,387	24,391,642
NET BOOK VALUE						
At June 30, 2019	16,231,994	2,475,000	391,870	436,013	833,749	20,368,626

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019/2020	2018/2019
	Kshs	Kshs
14 (b) INTANGIBLE ASSETS		
COST		
At 1 July 2019	4,201,981	4,201,981
Additions		-
Disposals	(0)	(0)
At 30 June 2020	<u>4,201,981</u>	<u>4,201,981</u>
AMORTISATION		
At 1 July 2019	3,846,782	2,807,459
Charge for the year	355,199	1,039,323
Disposals	(0)	(0)
Impairment loss	(0)	(0)
At 30 June 2020	<u>4,201,981</u>	<u>3,846,782</u>
NET BOOK VALUE		
At 30 June 2020	<u>-</u>	<u>355,199</u>

KWALE WATER & SEWERAGE COMPANY LIMITED**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020****NOTES TO THE FINANCIAL STATEMENTS (Continued)****15 (a) TRADE AND OTHER RECEIVABLES**

	2019/2020	2018/2019
	Kshs	Kshs
Trade receivables (note 15(b))	218,869,094	199,623,936
Other receivables	9,000	137,312
Gross trade and other receivables	218,878,094	199,761,248
Net trade and other receivables	218,878,094	199,761,248
	=====	=====

15 (b) TRADE RECEIVABLES

	2019/2020	2018/2019
	Kshs	Kshs
Gross trade receivables	308,327,643	282,667,433
Provision for doubtful receivables	(89,458,549)	(83,043,497)
	218,869,094	199,623,936
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	3,265,801	2,634,517
Between 30 and 60 days	4,065,378	3,452,122
Between 61 and 90 days	3,743,003	2,632,226
Between 91 and 120 days	4,403,872	2,821,370
Over 120 days	203,391,040	188,083,701
	218,869,094	199,623,936
	=====	=====

The provision for doubtful debts is the increase of ksh 25,660,210 from the gross trade receivables subjected to 25%, making the charge for the year to be ksh.6, 415,052

KWALE WATER & SEWERAGE COMPANY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 (c) STAFF RECEIVABLES

	2019/2020	2018/2019
	Kshs	Kshs
Gross staff loans and advances	-	342,541
Provision for impairment loss	(0)	(0)
	-	342,541
Less: Amounts due within one year	(0)	(0)
Amounts due after one year	-	342,541
	=====	=====

The case was concluded in favour of the defendant.

16 BANK AND CASH BALANCES

	2019/2020	2018/2019
	Kshs	Kshs
Cash at bank	16,894,802.47	15,516,976
Cash in hand	86,959.00	49,047
Total	16,981,761.47	15,566,023
	=====	=====

Kwawasco banks with two financial institutions that is the Kenya Commercial Bank of Kenya and Equity Bank. The Water and Sanitation Development Project Account was opened with KCB. Bank and cash balances has been rounded to the nearest one shilling in the statement of financial position.

KWALE WATER & SEWERAGE COMPANY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 BANK AND CASH BALANCES (Continued)

The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

		2019-2020	2018-2019
Financial institution	Account number	KShs	KShs
a) Current account (Expenditure)			
Kenya Commercial bank	1108004733	1,182,600.94	199,320.14
Equity Bank	0440294134905	19,680.72	19,860.72
WSDP Project	1240284225	57,023.00	-
Sub- total		1,259,304.69	219,180.86
b) Collection accounts			
Kenya Commercial bank	1108004849	3,256,878.36	164,839.41
Equity Bank	0440194134911	14,433.80	14,433.80
Sub- total		3,271,312.16	179,273.21
c) Fixed deposits account			
Equity bank (customer deposit)	0440194134915	3,723,648.25	3,506,378.25
Sub- total		3,723,648.25	3,506,378.25
d) Others(Project Accounts e))		8,612,473.40	11,519,823.30
cash in hand		86,959.00	49,047.00
M pesa	871600	28,064.00	92,321.00
Sub- total		8,727,496.40	11,661,191.30
Grand total		16,981,761.47	15,566,023.62

PROJECTS ACCOUNTS	ACCOUNT NO:	2019/2020	2018/2019
WSTF Vanga water project	1242789510	-	3,199,316.35
County water Bill	1235959678	2,067.00	2,320,638.00
WSTF Shimoni water project	1242789073	-	5,965,898.95
KRA L/Lunga	1580267877573	33,790.00	33,970.00
WSTF Ukunda Household San	1268421448	2,977,076.00	-
Mgandini Sanitation Project	1260307670	3,629,056.00	-
Fujita Water Project	1273250230	221,313.40	-
Madibwani Sanitation Project	1259629708	685,946.00	-
Shimoni P2 Sanitation Project	1257175947	89,043.50	
Pongwe Sanitation Project	1260307425	94,846.00	
Egu Sanitation project	1259628760	815,946.00	
Majimboni	1260308057	63,389.50	
TOTAL		8,612,473.40	11,519,823.30



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 (a) ORDINARY SHARE CAPITAL

	2019/2020	2018/2019
	Kshs	Kshs
Authorised:		
2,000 ordinary shares of Kshs.1,000 par value each	2,000,000	2,000,000
	=====	=====
Issued and fully paid:		
2,000 ordinary shares of Kshs.1,000 par value each	2,000,000	2,000,000
	=====	=====

17 (b) CAPITAL RESERVE

	2019/2020	2018/2019
	Kshs	Kshs
Capital Reserve	36,719,864	36,719,864

17(c) ACCUMULATED REVENUE RESERVE/ DEFICIT

As at July 1, 2018	(90,141,819)
Surplus/ deficit for the year	(6,241,602)
As at June 30, 2019	(96,383,421)
As at July 1, 2019	(96,383,421)
Deficit for the year	(27,397,471)
As at June 30, 2020	(123,780,892)

18 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

19 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

20 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the kwawasco's shareholders. Undistributed retained earnings are utilised to finance the kwawasco's business activities.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 TOTAL CURRENT LIABILITIES

	2019/2020	2018/2019
	Kshs	Kshs
Trade payables	230,284,604	193,811,358
Office of Auditor General	2,820,000	2,592,000
Accrued Payables	8,612,473	-
Other payables	69,085,930	73,616,377
	<u>310,803,187</u>	<u>270,019,735</u>

NOTES TO OTHER PAYABLES	Kshs	Kshs
Pan Africa/ Madison Insurance	1,720,071	1,620,591
NHIF	282,018	275,768
NSSF Contribution	-	432,082
PAYE	38,841,798	40,778,676
CWSSWG	11,400	11,400
Pension	1,164,699	1,164,692
KUCFAW	56,000	34,000
Ukulima Sacco	2,144,442	1,832,942
Net Staff Salaries	13,851,551	17,683,725
Helb	14,000	14,000
KWAWASCO Welfare	167,801	655,801
CPF Pension	6,599,313	5,553,597
Faulu Kenya	4,174,244	3,516,169
Training Levy	58,594	42,934
TOTAL	69,085,930	73,616,377

22 RETIREMENT BENEFIT OBLIGATIONS

The entity operates a defined benefit scheme for all full-time employees from July 1, 2019. The scheme is based on 15 percentage of basic salary of an employee at the time of retirement. The liability at the end of the year is as follows:

	2019/2020	2018/2019
	Kshs	Kshs
At the beginning of the year	5,553,597	4,382,675
Changes during the year	1,045,716	1,170,922
At end of the year	6,599,313	5,553,597
	=====	=====

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs 200 per employee per month.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) SERVICE GRATUITY

	2019/2020	2018/2019
	Kshs	Kshs
Opening balance	9,991,358	7,684,163
Movement	3,343,526	2,307,195
Closing balance	13,334,884	9,991,358

23 (b) CUSTOMER DEPOSIT

	2019/2020	2018/2019
	Kshs	Kshs
Opening balance	14,046,101	12,715,101
Movement	2,464,500	1,331,000
Customer Deposit	16,510,601	14,046,101

23(c) WORLD BANK -LOAN

	2019/2020	2018/2019
WSDP	45,015,440	-
Total	45,015,440	-

In March 2020 Kwawasco as the implementing agent of the WSDP project received ksh. 45,015,440 out of the 2.5 Billion.

24 NOTES TO THE STATEMENT OF CASHFLOW

	2019/2020	2018/2019
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(27,397,471)	(6,241,602)
Depreciation and Amortisation	7,272,915	6,010,054
Bad debt written off	342,541	-
Operating profit/(loss) before working capital changes	(19,782,015)	(231,548)
(Increase)/decrease in trade and other receivables	(19,116,845)	(20,905,994)
Increase/(decrease) in trade and other payables	40,783,452	31,426,444
Increase/(decrease) in customer deposit	2,464,500	1,331,000
Increase/(decrease) in Loan	45,015,440	-
Decrease in Tax	-	-
Increase/(decrease) in Differed income	(11,519,823)	-
Cash generated from/(used in) operations	37,844,708	11,619,902
	=====	=====

KWALE WATER & SEWERAGE COMPANY LIMITED

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(b) Analysis of cash and cash equivalents		
Cash at bank	16,894,802	15,516,976
Cash in hand	86,959	49,047
Balance at end of the year	16,981,761	15,566,023
	=====	=====

25 RELATED PARTY DISCLOSURES

(a) County Government of Kwale

The County Government of Kwale is the principal shareholder of Kwawasco holding 100% of the equity interest. The County Government of Kwale has provided full guarantees to all long-term lenders of the Company, domestically

Other related parties include:

- i) Ministry of Water and Irrigation;
- ii) Key management;
- iii) Board of directors;

26 RELATED PARTY DISCLOSURES

Transactions with related parties

	2019/2020	2018/2019
	Kshs	Kshs
a) Grants from the Government		
Grants from County Government	14,576,000	15,637,738
Total	14,576,000	15,637,738
	=====	=====
b) Key management compensation		
Directors' emoluments	1,500,000	2,247,500
Compensation to the Managing Director	2,018,640	1,500,000
Compensation to key management	9,842,000	9,842,000
Total	13,360,640	13,589,500
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from 2010

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2019-2020	2018-2019
	Kshs	Kshs
Share Capital	2,000,000	2,000,000
Retained earnings	(123,780,892)	(96,383,421)
Capital reserve	36,719,864	36,719,864
Total funds	(85,061,028)	(57,633,557)
Less: cash and bank balances	16,981,762	15,566,023
Net debt/(excess cash and cash equivalents)	(74,943,332)	(42,067,534)
Gearing	131.8%	125.4%

29. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments due to third parties under Non-cancellable operating leases are as follows:

30. INCOPORATION

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

31. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

32. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Presentation of financial statements	The management took the recommendations. We have prepared the Financial Statements according to IFRS 1			
2.1	Unbilled Customers	The finance committee agreed to forward the matter of billing system to the full board to suggest to acquire a new billing system or upgrade the existing one to address the problem of un billed customers			
2.2	Variance in Revenue Collection	Ideally there should be no variance in revenue collection and billing, but once bills are produced some customers come to the billing office to complain of their accounts being over billed then adjustment are made with the approval of the Commercial manager which at times are not recognised in the accounts department.			
2.3	Loss of Revenue on Estimated bills	The management are in the process of acquiring new meters to replace all the non-working meters. In mid-July 2019 the county government donated 1,000 pieces to the company to replace the non-working meters			
2.4	Unaccounted for Revenue from New	The company has separate account for revenue and customer deposit			

KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Connections	unfortunately some customer's bank the whole amount of ksh 5,000 in the revenue collection account because they are in a hurry or there is no Equity bank nearest to them to deposit the amount of ksh 2,500 as deposit money for their account. The management will be extra vigilant to transfer any amount wrongful deposited to the revenue collection account which belongs to customer deposit			
3.1	Unsupported Staff Medical Insurance	The management have provided a contract policy document to support the expenditure			
3.2	Unsupported Expenditure on Casuals	There are no casual employees as stated but unskilled labour who are hired at the field on demand			
3.3	Transport, Travelling and Subsistence Cost	The management has supported the ksh 1,488,817 which was said to be unsupported			
3.4	Repairs and Maintenance Expenses	The management has taken in your recommendation and rectified that and all the purchases which are ksh 10,000 and above will undergo the procurement process			
4.1& 4.2	Cost of Bulk Electricity and Bulk Water	The management have provided all the information in regards to bulk Electricity			
5.0	Finance Cost	The management have provided minutes in regard to that			

KWALE WATER & SEWERAGE COMPANY LIMITED

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
6.0	Asset Register & water metres	The Ag. Managing Director has been tasked with requesting the department of water to provide S13 for formal transfer of the meters delivered at KWAASCO during the last financial year. The Board has recommended to write a letter to CWSB requesting a formal transfer of the Assets.			
6.0	Purchase of Motor vehicle –Ford Ranger XLT	The management paid ksh 1.5 Million in January 2020 and entered on a payment plan with CMC. After the payment the supplier released the vehicle to the company. Attached is the payment made, pictures of the vehicle at Kwawasco compound, log book the payment plan agreed and the insurance paid for that vehicle for this year.			
7.0	Intangible Assets	The management explained the variance in this year financial statements			
8.1	Staff Receivables Due after one year	The matter in question of ksh 342,541 is at court and will be concluded soon			
8.2	Staff and Other Receivables	The management have provided the imprest register for your review. Further to that the management has committed its self to ensure that imprest are surrendered within the seven days			
8.3	Trade Receivables	The management sort assistance from the developer and installer of the billing system on			



KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		correction of the anomalies that the system was giving after a report has been generated and also assist in reconciling the variance			
8.4	Provision for Doubtful debts	The variance of ksh 340,800 was an increase in the provision of a figure of staff debtor that had been long outstanding. Aged analysis is available through the system			
9.0	Bank and Cash Balances	As at 30 June 2018 the company had cash in hand of ksh 37,633 vide a board of survey certificate refer financial year ended 2019 note number 16 (d)			
10.0	Going Concern	The company has just received the first batch of the World Bank money which is aimed at refurbishing water infrastructure which is in horrible state, buying new water meters to replace the non-working meters which has always contributed to high non-revenue water and exploring new lines which will increase customer base to the company. The management strongly believes after the implementation of this project the company will have sound financial status. As at January 2020 under the WSPD, procurement and delivery of motor cycles had taken place which is crucial for operation issues to the company.			

KWALE WATER & SEWERAGE COMPANY LIMITED

**ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
11.0	Customer Deposits	The management revived to refund the amount withdrawn from the customer deposit account in instalments of ksh 50,000 per month and this can be verified in the customer deposit bank statement of up to 30 June 2019			
12.1	Trade Payables	The management is in the process of getting certified copies of the suppliers whose invoices were taken by the anti-corruption officers. Some of these suppliers went to court and cases concluded hence the company is committed to pay the suppliers.			
12.2	Kenya Power and Lighting Company Limited	The management have provided all statement for Kenya Power from July 2017 to June 2018 for verification.			
12.3	Statutory Deductions	The company has regularised payments of statutory deduction except for Pay As You Earn which the company has a payment plan and it is moving towards complying with the statutory dates.			
13	Budgetary Controls and Performance	The Company had not provided for borrowing however circumstances surrounding operational activities forced the company to seek financial assistance from the owner of the company (County Government of Kwale) Numerous correspondence were done from Board of Directors, the management			

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KWALE WATER & SEWERAGE COMPANY LIMITED
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FOR THE YEAR ENDED 30 JUNE 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		and the county Executive Member for Water towards the same.			


Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Ag. Managing Director

Chairman of the Board

Date.....

 23/2/2021

Date.....


23/2/2021



KWALE WATER & SEWERAGE COMPANY LIMITED
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APPENDIX II: PROJECTS IMPLEMENTED BY THE KWALE WATER AND SEWERAGE COMPANY LIMITED

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1						
2						

Status of Projects completion

Kwawasco is still in the preliminary stages of implementing the WSDP project funded by the World Bank.

N/B

No funding has been so far received from WSDP

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1							
2							
3							



KWALE COUNTY GOVERNMENT - EXECUTIVE
Reports and Financial Statements
For the year ended June 30, 2020

Shee Iddi		15,000
Ali Hajji		72,000
Total Outstanding Advances	1,674,245	603,658
3075 KWALE MUNICIPALITY		
3076 DIANI MUNICIPALITY		
GRAND TOTAL	9,190,136	8,250,653